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SECURITIES

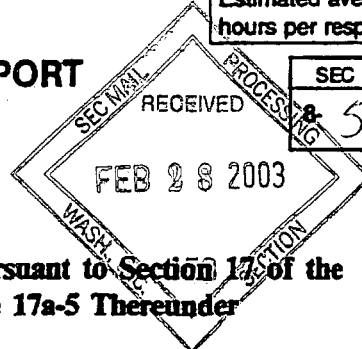
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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
53441



FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/02 AND ENDING 12/31/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

AQUILLO PARTNERS, INC.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

240 STOCKTON STREET, SUITE 500

(No. and Street)

SAN FRANCISCO

CA

94108

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

JOHN RUMSEY

(415) 677-0309

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

LAUTZE & LAUTZE, CPAS & FINANCIAL ADVISORS

(Name - if individual, state last, first, middle name)

111 WEST ST. JOHN STREET, SUITE 1010, SAN JOSE, CA 95113

(Address)

(City)

(State)

Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions.

PROCESSED

APR 04 2003

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

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AQUILO PARTNERS, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2002

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LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Aquila Partners, Inc.
San Francisco

We have audited the accompanying statement of financial condition of **Aquila Partners, Inc.** as of December 31, 2002 and the related statements of loss, changes in stockholders' equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aquila Partners, Inc. as of December 31, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The data contained in Schedules I, II, III, and IV is presented, as supplementary information required by rules 15c3-3 and 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 6 to the financial statements, the Company has suffered recurring losses from operations and has an accumulated deficit, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 6. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

San Jose, California
February 6, 2003

AQUILO PARTNERS, INC.
STATEMENT OF FINANCIAL CONDITION
December 31, 2002

Assets

Current assets:	
Cash and cash equivalents	\$ 31,361
Accounts receivable	195
Other assets	5,369
	<hr/>
Total current assets	36,925
Computer equipment, net of accumulated depreciation	1,563
Organization expenses, net of accumulated amortization	3,253
	<hr/>
Total assets	<u>\$ 41,741</u>

Liabilities and Stockholders' Equity

Liabilities:	
Accounts payable	\$ 16,555
	<hr/>
Total current liabilities	16,555
	<hr/>
Commitments	
Stockholders' equity:	
Common shares, \$.0001 par value; 30,000,000 shares authorized; 219,584 shares issued and outstanding	22
Paid-in capital	164,761
Accumulated deficit	(139,597)
	<hr/>
Total stockholders' equity	25,186
	<hr/>
Total liabilities and stockholders' equity	<u>\$ 41,741</u>

AQUILO PARTNERS, INC.
STATEMENT OF LOSS
For The Year Ended December 31, 2002

Revenues:		
Interest income	\$	526
		<hr/>
Total revenues		526
		<hr/>
Expenses:		
Legal and professional		60,929
Travel and entertainment		27,743
Telephone		5,733
Computer expenses		2,247
Office expenses and supplies		1,175
Printing and advertising		777
Insurance		362
Dues and subscriptions		418
Depreciation and amortization		2,045
Training and recruitment		462
Miscellaneous expenses		114
Regulatory expenses		955
Bank interest		29
Bank charges		122
Penalties		44
		<hr/>
Total expenses		103,155
		<hr/>
Net operating loss before income tax expense		(102,629)
		<hr/>
Income tax		1,600
		<hr/>
Net loss	\$	(104,229)
		<hr/>

AQUILO PARTNERS, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For The Year Ended December 31, 2002

	Common Stock	Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balances, beginning of year	\$ 11	\$ 104,989	\$ (35,368)	\$ 69,632
Issue of 114,584 Common shares	11	59,772	-	59,783
Net loss for the year	-	-	(104,229)	(104,229)
Balances, end of year	<u>\$ 22</u>	<u>\$ 164,761</u>	<u>\$ (139,597)</u>	<u>\$ 25,186</u>

AQUILO PARTNERS, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2002

Cash flows from operating activities:	
Net loss	\$ (104,229)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization	2,045
Increase in assets:	
Accounts receivable	(195)
Other assets	(5,369)
Increase in liabilities:	
Accounts payable	15,335
Net cash used by operating activities	<u>(92,413)</u>
Cash flows from financing activities:	
Issuance of 105,000 common shares	54,783
Net cash provided by financing activities	<u>54,783</u>
Net decrease in cash and cash equivalents	<u>(37,630)</u>
Cash and cash equivalents:	
Beginning of year	68,991
End of year	<u><u>\$ 31,361</u></u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for:	
Interest	<u>\$ 29</u>
Income taxes	<u>\$ 1,600</u>
Non cash financing activities:	
Issuance of 9,584 common shares through reclassification of accounts payable to stockholders	<u><u>\$ 5,000</u></u>

AQUILO PARTNERS, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2002

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business

Aquilo Partners, Inc. (the Company) was incorporated in California in March 2001. The Company is a member of the National Association of Securities Dealers. The Company is a boutique investment banking firm specializing in mergers and acquisitions, advisory services and private placements for life science companies. The Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

Computer Equipment

Computer equipment is recorded at cost. Depreciation is provided on the straight-line method over three years, the estimated useful lives of the assets.

Organization Expenses

Organization expenses are recorded at cost. Amortization is provided on a straight-line basis over five years.

Revenue Recognition

Advisory fees and the related receivables are recognized in accordance with the contract. Advisory fees are generally collected within 30 - 45 days and are all considered collectible in the normal course of operations.

Tax Status

In 2001, the Company elected to be taxed as an S Corporation under the provisions of the Internal Revenue Code. Under those provisions, the Company does not pay federal corporate income taxes on its taxable income. Instead the stockholders are liable for individual federal income taxes on their respective shares of the Company's taxable income. California law is much the same as federal with the exception that the Company must pay a 1.5% tax. Accordingly, the tax provision on the Company's books reflects only the state tax liability.

Cash Equivalents

All highly liquid debt instruments with a maturity of three months or less as of the date of purchase are considered to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

AQUILO PARTNERS, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2002

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Advertising

Advertising costs are expensed when incurred. Total printing and advertising costs during the year were \$777.

Concentration Of Work

The Company normally concentrates its efforts on one or two clients during a year. These clients will change as projects are completed and new ones commence.

2. **COMPUTER EQUIPMENT**

Furniture and equipment	\$ 3,129
Less accumulated depreciation	<u>(1,566)</u>
	<u>\$ 1,563</u>

3. **ORGANIZATION COSTS**

Organization costs	\$ 5,005
Less accumulated amortization	<u>(1,752)</u>
	<u>\$ 3,253</u>

4. **PROVISION FOR CALIFORNIA STATE TAX**

Current provision	\$ 800
Prior year under provision	<u>800</u>
	<u>\$ 1,600</u>

At December 31, 2002, the Company had a state net operating loss carryforward of approximately \$126,477, available to reduce future taxable income. These normally expire 5 years from the date the loss was incurred. California has suspended the use of net operating loss carry forwards for 2 years and under current tax law provisions, the net operating loss carry forwards will begin to expire in 2008.

AQUILO PARTNERS, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2002

5. **COMMITMENTS AND RELATED PARTY TRANSACTIONS**

The Company currently occupies its facilities rent-free.

Included in accounts payable is \$2,563 owed to the stockholders.

6. **GOING CONCERN**

The officers' of the Company waived their right to any compensation during the year ending December 31, 2002.

On January 27, 2003 the Company issued 57,499 common shares to both stockholders for \$0.52174 per share, which increased the net capital by \$60,000.

The Company is dependent upon achieving profitable operations and/or receiving additional capital contributions from the stockholders' to ensure its continued existence as a going concern.

7. **NET CAPITAL REQUIREMENTS**

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis. At December 31, 2002, the Company had net capital and a net capital requirement of \$14,806 and \$5,000, respectively.



LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

Independent Auditors' Report on Supplementary Information
Required by Rule 17a-5 of the Securities and Exchange Commission

Board of Directors
Aquila Partners, Inc.
San Francisco, California

We have audited the accompanying financial statements of Aquilo Partners, Inc. as of and for the year ended December 31, 2002, and have issued our report thereon dated February 6, 2002. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III, and IV is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lautze & Lautze

San Jose, California
February 6, 2002

AQUILO PARTNERS, INC.

SUPPLEMENTARY FINANCIAL INFORMATION

For The Year Ended December 31, 2002

AQUILO PARTNERS, INC.
FINANCIAL AND OPERATION COMBINED UNIFORM SINGLE REPORT
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT
December 31, 2002

Schedule I

COMPUTATION OF NET CAPITAL

1.	Total ownership equity from Statement of Financial Condition		\$25,186
2.	Deduct ownership equity not allowable for Net Capital		
3.	Total ownership equity Qualified for Net Capital		
4.	Add:		
	A. Liabilities subordinated to claims of general creditors allowable in computation of net capital		
	B. Other (deductions) or allowable credits (List)		
5.	Total capital and allowable subordinated liabilities		
6.	Deductions and/or charges		
	A. Total non-allowable assets from Statement of Financial Condition (Notes B and C) (See Note D)	\$10,380	
	B. Secured demand note deficiency		
	C. Commodity futures contracts and spot commodities proprietary capital charges		
	D. Other deductions and/or charges		10,380
7.	Other additions and/or allowable credits (List)		
8.	Net capital before haircuts on securities positions		14,806
9.	Haircuts on securities (computed where applicable pursuant to 15c3-1(f))		
	A. Contractual securities commitments		
	B. Subordinated securities borrowings		
	C. Trading and investment securities		
	1. Exempted securities		
	2. Debt securities		
	3. Options		
	4. Other securities		
	D. Undue Concentration		
	E. Other (List)		
10.	Net Capital		\$14,806

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

11.	Minimum net capital required (6-2/3% of line 19)	\$1,104
12.	Minimum dollar net capital requirement of reporting broker or dealer minimum net capital requirement of subsidiaries computed in accordance with Note (A)	5,000
13.	Net capital requirement (greater of line 11 or 12)	5,000
14.	Excess net capital (line 10 less 13)	9,806
15.	Excess net capital at 1000% (line 10 less 10% of line 19)	13,150

AQUILO PARTNERS, INC.
FINANCIAL AND OPERATION COMBINED UNIFORM SINGLE REPORT
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT (CONTINUED)
December 31, 2002

COMPUTATION OF AGGREGATE INDEBTEDNESS

16.	Total liabilities from Statement of Financial Condition		\$	16,555
17.	Add:			
	A. Drafts from immediate credit	_____		
	B. Market value of securities borrowed from which no equivalent value is paid or credited	_____		
	C. Other unrecorded amounts (List) proprietary capital charges	_____		
19.	Total aggregate indebtedness		\$	16,555
20.	Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10)			112%

OTHER RATIOS

21.	Percentage of debt to debt equity total computed in accordance with Rule 15c3-1(d)		0%
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NOTES

- (A) The minimum net capital requirement should be computed by adding the minimum dollars net capital requirement of the reporting broker dealer and for each subsidiary to be consolidated the greater of
1. Minimum dollar net capital requirement or
 2. 6 2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners securities, which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5. Respondent should provide a list of material non-allowable assets.
- (D) Non-allowable assets are made up as follows:

Accounts receivable	\$	195
Other assets		5,369
Computer equipment, net of accumulated depreciation		1,563
Organization expenses, net of accumulated amortization		3,253
	\$	<u>10,380</u>

AQUILO PARTNERS, INC.
COMPUTATION FOR DETERMINATION OF
RESERVE REQUIREMENTS PURSUANT TO RULE 15c3-3
December 31, 2002

Schedule II

The Company did not handle any customer cash or securities during the period and does not have any customer accounts.

AQUILO PARTNERS, INC.
INFORMATION RELATING TO THE POSSESSION OR
CONTROL REQUIREMENTS UNDER RULE 15c3-3
December 31, 2002

Schedule III

The Company did not handle any customer cash or securities during the period and does not have any customer accounts.

AQUILO PARTNERS, INC.
RECONCILIATIONS PURSUANT TO RULES 17a-5
December 31, 2002

Schedule IV

1. Reconciliation of Computation of Net Capital to Respondent's Computation

The reconciliation between the computation per Schedule I and the respondent's computation is as follows:

	<u>Net Capital</u>	<u>Aggregate Indebtedness</u>
Computation per respondent and per Schedule I	\$ <u>14,806</u>	\$ <u>16,555</u>

OATH OR AFFIRMATION

I, JOHN RUMSEY, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of AQUILLO PARTNERS, INC., as of DECEMBER 31, 2002, 19____, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

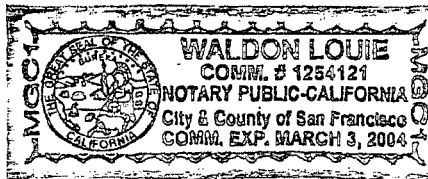
State of California
County of San Francisco

SUBSCRIBED AND SWORN TO BEFORE ME

THIS 27 DAY OF FEBRUARY, 2003.

Waldon Louie
NOTARY PUBLIC

Notary Public



[Signature]
Signature
Chief Executive Officer
Title

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

Board of Directors
Aquila Partners, Inc.
San Francisco, California

In planning and performing our audit of the financial statements and supplementary schedules of **Aquila Partners, Inc.** (the Company) for the year ended December 31, 2002, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

Internal Control
Page Two

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Laurie f Laurie".

San Jose, California
February 6, 2002